

# Theorizing regional group formation : anatomy of regional institutions from a membership perspective

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## IDE DISCUSSION PAPER No. 683

### Theorizing Regional Group Formation

#### Anatomy of Regional Institutions from a Membership Perspective

Shintaro Hamanaka\*

January 2018

#### Abstract

Drawing inspiration from the ancient Chinese proverb “寧為雞口，無為牛後” in *Zhan Guo Ce* [戰國策], which means that “it is better to be the head of a small group than to hold a less powerful position in a large group,” this paper offers an alternative explanation to institution-building. The proposed theory is expected to shed light on institution-building not only in Asia-Pacific, but also all over the world. In theorizing institution-building, we put special emphasis on membership and leadership, which are intrinsically linked concepts. The key factor connecting the two concepts is “exclusion,” because exclusion of rivals is necessary in order for a state to become a leader. We hypothesize that a *potential* leader attempts to form a group from which more powerful states are excluded, in order to become an *actual* leader. Our main claim is that the creation of a *regional* group is an effective way to exclude rivals and become an actual leader. We will examine the explanatory power of Regional Group Formation Theory, using 33 cases of regional institution-building projects in Asia-Pacific since WWII. Our empirical investigations revealed three of Japan’s behavior patterns with regard to membership in regional groupings, strongly suggesting the validity of the proposed theory: (i) Japan does not support regional groups which include the US, because US presence limits Japan’s leadership opportunity (five out of six cases of groups including the US); (ii) Japan supports regional groups excluding the US, where it can hold the leadership position (19 out of 23 cases of groups excluding the US); and (iii) Japan opposes regional groups excluding Japan, where countries like Indonesia lead (Japan tried to join all of 4 cases).

Keywords: Regional Group Formation Theory, Regionalism, Regional institution-building, Membership, Leadership, Exclusion

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Keywords: Regional group formation (RGF), Membership, Exclusion, Regional institution-building

## Theorizing Regional Group Formation

### Anatomy of Regional Institutions from a Membership Perspective

#### Introduction

寧為雞口，無為牛後

It is better to be the head of a small group than to hold a less powerful position in a large group.

(戰國策卷二十六 *Zhan Guo Ce*, Vol. 26)

By the 4th Century BC, internal warring had decreased the number of major states in China to seven. Accommodating the increasing pressure related to the rise of Qin became the principal concern of statesmen in the other six states. Under such a situation, one strategist, Su Qin, persuaded the King of Han to form an association of the six countries (*he zong*: vertical association<sup>1</sup>). The telling phrase he used was, however, somewhat different from “balance of power,” which nowadays many international relations theorists still emphasize. He borrowed the ancient Chinese proverb above, suggesting the significance of “relative position” in associations.

The principal purpose of this paper is to offer an alternative explanation to institution-building, drawing inspiration from the Chinese proverb above. The ancient Peloponnesian War between Athens and Sparta provides the foundation for the theory of balancing, and it is not surprising that a new theory has been created, based on the strategy introduced in *Zhan Guo Ce*. The proposed theory sheds light on membership and leadership,<sup>2</sup> which are intrinsically linked concepts. The key factor connecting the two concepts to give an insight into group formation<sup>3</sup> is “exclusion,” because exclusion of rivals is necessary in order for a state to become a leader. The theory predicts that a *potential* leader will attempt to establish a group from which more powerful states are excluded, in order to become an *actual* leader. Our main claim is that the creation of a *regional* group is an effective way to exclude rivals and become an actual leader.

It seems existing international relations theories lack efficacy in explaining the membership formulation of institutions, especially exclusion from membership. The proposed theory attempts to narrow this gap. For example, one of the most important empirical findings of this study, Japan’s attempt to establish regional institutions which exclude the US, cannot be fully explained by existing theories. Realists may be puzzled by such Japanese policies, because the US is Japan’s only ally.<sup>4</sup> Neoliberal institutionalism also has difficulty fully explaining Japan’s exclusionary attitude because of strong economic interdependence

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<sup>1</sup> Qin was located in Western China and the other six states were located in the East. Thus, the association with Qin was called “horizontal” association, whereas the association of the six states was called “vertical” association.

<sup>2</sup> The leadership *position* and leadership *behavior* are different. Young (1991) differentiates leadership *behavior* of individuals into three types: entrepreneurial leadership; intellectual leadership; and structural leadership.

<sup>3</sup> The term “group formation” is used as a synonym of institution-building at the subsystem level because the membership aspect of institution is our analytical focus.

<sup>4</sup> Institutions for engagement also include states powerful enough to engage a dissatisfied rising state (Schweller, 1999).

between the two countries. Constructivists may argue that the Asian identity held by Japan explains its preferences; however, Japan has always had a strong desire to include Australia and New Zealand despite recognizing them as Western countries.

Despite its Chinese origin, the theory proposed in this study is expected to explain regional institution-building around the world. In fact, exclusion is a key to understanding, for example, the Monroe Doctrine, the regionalism policy enacted by the US before the WWII. From the European perspective, Herbert Kraus, Professor of University of Leipzig, convincingly argues that the objective of the Monroe Doctrine was to exclude European influence from the hemisphere (Kraus, 1914, p. 110). Likewise, Alejandro Alvarez, a Chilean diplomat, expresses the view that the Monroe Doctrine has exclusionary elements (Alvarez, 1911). Furthermore, Tyler Dennett, Princeton Professor of History, argues that the Monroe Doctrine is similar to Japan's wartime Greater East Asian Co-prosperity Sphere in the sense that both regionalism policies insisted upon an "exclusive" responsibility in their respective areas.

The Japanese and the American doctrines have had two common characteristics: (1) both doctrines have been justified by the claim of self-defense; (2) until the inauguration of the good neighbor policy in the Western Hemisphere, both countries assumed an *exclusive* responsibility for the execution of the doctrine in their respective areas (*italic added*) (Dennett, 1941, p. 61).

The paper is structured as follows. The next section briefly reviews the literature, focusing on one critical question of institutions: the demand for and supply of institutions. Next, the paper develops the RGF theory, explaining a potential leader's attempt to supply a regional group by excluding rival states. The discussion on methodology follows. The empirical part of this paper tests the explanatory power of the proposed theory, using 33 cases of regional group formation projects in Asia-Pacific since WWII. It examines whether concerned countries' regionalism policies are predominantly determined by the factors of membership (which countries participate in the group) and leadership (which country leads the group), and whether institution-building has a clear pattern in terms of membership. The final section concludes with some remarks on the applicability of the proposed theory to regional institution-building outside Asia.

## **Demand and Supply of Institutions**

It is certain that the existence of an institution is the final institutional equilibrium, as Snidal (1994, p. 455) suggests.<sup>5</sup> Neither supply nor demand alone provides a complete explanation of final institutional equilibrium; each theory emphasizes only one of them. Theories examined here include realism, neoliberal institutionalism, hegemonic stability theory, and constructivism. We will also briefly discuss literature that focuses on membership issues.

Realists argue that the existence of a common external threat can be a trigger for the formation of a coalition. A coalition is essential to the survival of weaker states. Oft-cited examples of balancing include ASEAN against Vietnam (Walt, 1988, p. 314). The theory of balancing is a demand-side approach to international institutions. When there is a common threat, a coalition is required to mitigate the threat. The demand for a coalition leads to its actual existence, due to the assumption of "self-help" (Waltz, 1979, p. 91). As otherwise

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<sup>5</sup> Unlike economics, the demand for and supply of an institution is a metaphor rather than artificially separated contrasting concepts (Keohane, 1982, p. 143).

states cannot survive, what is required or demanded for survival is actually realized.

Neoliberal institutionalists argue that egoistic states cooperate and create institutions, because such states can enjoy the benefits produced by institutionalization. They assert that states can concentrate on absolute gains, as long as the plausibility of war is low (Powell, 1991). An emphasis is placed on cooperation among interdependent states to solve common problems. States face the question of whether the management of complex economic environmental and social interdependence should be institutionalized or left to *ad hoc* political bargaining (Hurrell, 1995, p. 63). As the title of Keohane's article *The Demand for International Regimes* suggests, the theory developed by institutionalists is a demand-side approach to institutions (Keohane, 1982).<sup>6</sup> Some institutionalists recognize the importance of supply-side, but their analyses still emphasize collective action problems among co-suppliers of an institution, when there is a demand for it (Mattli 1999, pp. 54-56).

Hegemonic stability theory is based on Kindleberger's (1973) work on world economic depression during the interwar period, *The World in Depression 1929-1939*. His central proposition is: "for the world economy to be stabilized, there has to be a stabilizer, one stabilizer" (*ibid.*, p. 305). Only the hegemonic state, with predominance of power and a long-term view of interest, has the will and means to "supply" international collective goods; that is, economic order in general, and international organizations such as the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) in particular. It is obvious that the hegemonic stability theory is a supply-side theory of institutions (Keohane, 1982, p. 142).

Constructivists emphasize the significance of ideational factors such as identity and imagination. The determination of an imagined boundary (insiders) and the formation of "self" and "others" are critical for constructivists. On collective identity formation, Wendt (1994, p. 386) argues "it is the nature of identification that determines how the boundaries of the self are drawn." As Acharya (1999, p. 74) admits, the constructivist approach to regionalism often draws on Anderson's work on nationalism. Anderson (1991, p. 7) argues that "the nation is imagined as *limited* because even the largest of them, encompassing perhaps a billion living human beings, has finite, if elastic, boundaries, beyond which lie other nations." The existence of common "others" is essential for an "imagined community" to be established. A regional identity that is derived from a collective act of self-imagination among concerned parties leads to the creation of an imagined region. What constructivists attempt to explain is neither demand for nor supply of regionalism, but imagination of community.

There are several interesting studies focusing on the supply-side of institutions, with some emphasis on membership. Downs et al. (1998) show that an agreement starting with a small number of liberalization-minded countries that later expands membership can achieve deeper integration than an inclusive agreement negotiated by a large number of countries from the outset. According to their theory, the incentive of exclusion should be strong when agreements to liberalize economy are negotiated, which is counter-factual to the empirical finding of this paper; the incentive of exclusion is stronger in non-economic fields. Mattli (1999) attempts to offer a comprehensive explanation of regional institutions, including both demand and supply perspectives. His game theory-based analytical framework is in line with

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<sup>6</sup> Keohane (1984) argues the demand-side is essential to explain the existence of institutions, because institutions continue to exist even when the distribution of power changes (after the decline of a hegemony) – a change in the supply-side conditions.

institutionalism, and essentially discusses the conditions under which (i) institutions are successfully established (e.g. the existence of monitoring and an enforcement mechanism) and (ii) outsiders are allowed to obtain membership (e.g. net-positive contributions to insiders) (ibid, pp. 54-56, 63). However, his study pays little attention to the incentive of exclusion of rivals from original membership, held by suppliers of institutions. Those suggest that a more straightforward supply-side theory is needed to explain exclusion.

### **Theorizing Regional Group Formation**

The proposed theory approaches regional group formation from the supply-side. While neither demand nor supply alone explains the existence of institutions, a close analysis of the supply-side is justified, because the process of institution-building is usually initiated by a proposal from a state that is keen to supply (establish) the institution. Various institutional features are largely determined by suppliers. Because the proposed RGF theory offers an alternative explanation to regional institutions from the supply-side perspective, it synergizes with existing international relations theories which emphasize the demand-side of institutions, to explain the institutional equilibrium where the demand should match the supply.

### ***Limits of Regional Application of Hegemonic Stability Theory***

Hegemonic stability theory, which is a supply-side theory, gives us a good starting point for discussion, despite its weakness.<sup>7</sup> The hegemon's provisions to global institutions entail both costs and benefits (Lake, 1993, p. 467; Russett, 1985). The proponents of the theory emphasize the costs of supplying the institutions (hence, they regard institutions as collective goods). A leader, to create stability, must maintain an open market for other countries' surplus goods, maintain steady capital outflow for productive investment in other countries, and also provide liquidity, to serve as a "lender of last resort" (Kindleberger, 1973, p. 292). Its opponents regard hegemonic institutions as private goods, emphasizing the benefits gained by being a supplier of order. A hegemon can design and use institutions to pursue its own agenda.<sup>8</sup> Moreover, the hegemon may also require contribution from the other participants, because the hegemonic power constitutes a quasi-world government (Snidal, 1985, p. 587).

A hegemon can also enjoy prestige by playing the role of stabilizer and/or supplying and leading institutions (Kindleberger 1981, p. 248), though this point is easily forgotten. While sovereignty principle holds that states are formally equal, there are informal rankings of states in terms of prestige (Wood, 2013). What should be noted is that, as Jervis (1993, p. 58) argues citing the example of the Olympics where only one country can win the most medals, competition for primacy is required for international status and prestige. The prestige of the organizational leadership position is an important source of influence on other members (Kratochwil and Ruggie, 1986, p. 756). The hegemon naturally receives the lion's share of prestige when it supplies global institutions, because of its primacy in the global arena.

Because hegemonic stability theory is a systemic theory used to explain global institutions

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<sup>7</sup> Scholars consider that what is essential to define hegemony is control over outcomes and that concentration of material capacity is neither a necessary nor a sufficient condition for the existence of international institutions (Russett 1985; Snidal, 1985, p. 582).

<sup>8</sup> Conybear (1987) suggests that the international trade system is used by the hegemon as a tool of predatory trade policy. It is also argued that the IMF was used by the US government to secure both its political influence and commercial interests (Wade and Veneroso, 1998).



supplied by hegemons, its simple application at the regional level is impossible. The problem of free-riding becomes critical in the case of regionalism, because parties that free-ride on regional institutions are “outsiders” (Ravenhill, 2001, p. 11). This problem is often emphasized in the case of trade, because non-members’ trade could be favorably affected by regional free trade projects. There may be a free-riding problem in the case of financial regionalism as well. When a regional monetary fund, not the IMF, prevents a financial crisis, it is also beneficial for non-members that did not contribute to the fund.

There are also benefits specific to regional leaders. First, the leader in a regional group increases its influence on smaller members at the expense of excluded rival “outsiders.” When a regional group is created and the interactions among the members increase, the dependence of smaller states on larger states becomes greater in a relative term. As Jacob Viner argues in *The Custom Union Issue*, Prussia established Zollverein with weaker German states and kept Austria out of the group in order to increase its influence in the region, and to minimize that of Austria (Viner, 1950, pp. 98-99). Second, regional institution-building also leads to prestige. As Morgenthau (1962) argues, setting up a mechanism to provide benefits which support junior partners is a typical way of conducting a “policy of prestige,” and creating a regional mechanism is not an exception. A leader in a group gains prestige vis-à-vis junior partners only when its primacy is secured at the expense of excluded parties, including any hegemon.

**Table 1: Cost and Benefit of Hegemon and Regional Leader**

	Cost	Benefit
Hegemon	<ul style="list-style-type: none"> <li>• Providing financial resources to other members</li> <li>• Open domestic markets for imports from other members</li> </ul>	<ul style="list-style-type: none"> <li>• Designing institutions, including contribution mechanism from other members</li> <li>• Prestige of supplying institution</li> <li>• Increasing influence on other members</li> </ul>
Regional leader	<ul style="list-style-type: none"> <li>• Being free-ridden on financial resources by non-member free-riders</li> <li>• Being free-ridden on opening market by non-member free-riders</li> </ul>	<ul style="list-style-type: none"> <li>• Gaining prestige at the expense of excluded potential leaders</li> <li>• Increasing influence on other members at the expense of non-members</li> </ul>

Note: Regional leader’s cost and benefit are in addition to those of the hegemon.

### ***Regional Group Formation Theory***

In *The Logic of Scientific Discovery*, Karl Popper argues that “simplicity [of statements] is so highly desirable ... because [simple statements] tell us more; because their empirical content is greater; because they are better testable (Popper, 1959).” It is wise to start with simple assumptions and deduce a simple hypothesis that can be easily tested, which may be later modified into more complex hypotheses. We will have two simple assumptions from which a hypothesis can be drawn.

**Assumption 1:** A geographical area covered by a regional group is not determined *a priori*.

Because a region is not a given, determining membership of a regional group may become a problem. Harris (2000, p. 498) clearly states that “the definition of the region ... is what the states of the region make of it.”

**Assumption 2:** Holding the leadership position of a regional group is beneficial overall.

It is assumed that the benefits of being leader are larger than the costs, which is certainly a strong assumption. As discussed, when countries value prestige, being the leader becomes significantly beneficial. While existing studies that consider prestige and status, often emphasizing the “ranking” of states, argue that having a seat at a “great power club” is critical in gaining status and prestige (Buzan, 2004; Paul and Shankar, 2014), the assumption that having the Chairperson’s seat, even at a small club, also contributes to status and prestige, seems justifiable.

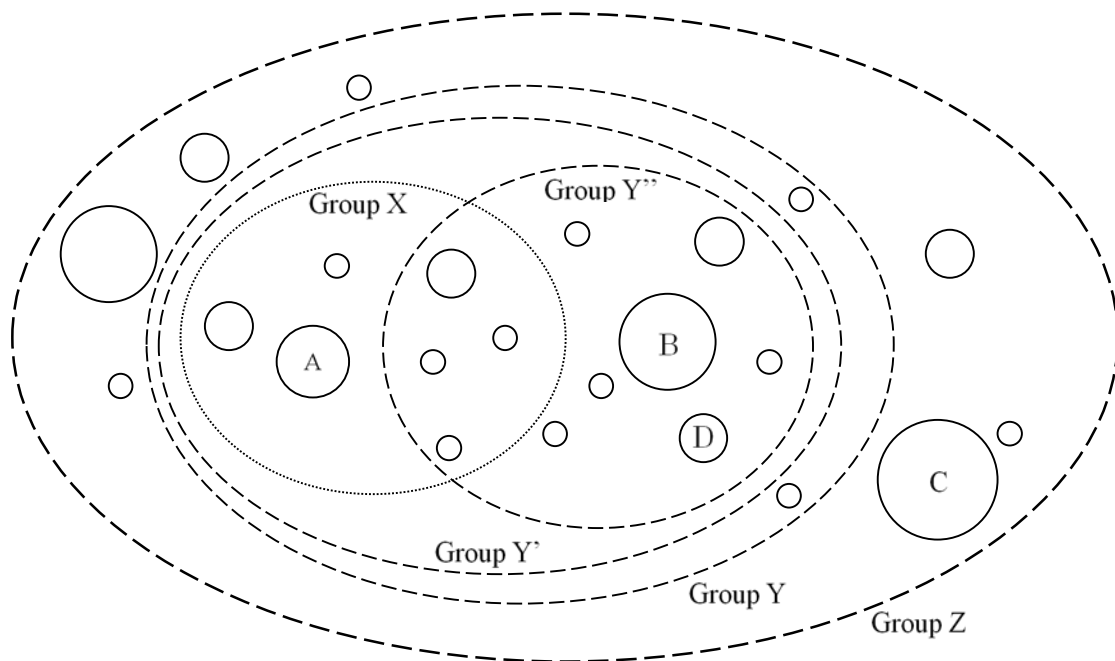
The proposed theory includes two key states, which are defined as follows.

**Superior Potential Regional Leader (SPRL):** A state that will be an actual regional leader, unless it is excluded by IPRL.

**Inferior Potential Regional Leader (IPRL):** A state that can be an actual regional leader, only when SPRL is excluded.

SPRL and IPRL are inseparable from each other. There are always Number 1 and Number 2 within a limited geographical space; the former is SPRL and the latter is IPRL. SPRL is accompanied by IPRL, which could be Number 1, if a regional group excluding SPRL is created. In Figure 1, Country A is IPRL vis-à-vis Country B, which is SPRL. At the same time, Country B is IPRL vis-à-vis Country C, which is SPRL.

**Figure 1: Illustration of Theory**



Source: Author’s illustration

The paired relationship between SPRL and IPRL has both upper and lower ends. Because the hegemon is the most powerful country, there is no need for it to exclude others to be an

actual leader. It is also difficult for states that are not geographically near other, smaller states, to become leaders, even in a very small group (for example, Mongolia between China and Russia; Laos between Thailand and Vietnam; and Korea between China and Japan). In Figure 1, Country D, surrounded by Countries B and C, is under just such a geographical condition.

From the two assumptions above, a theory below is deduced. The logic of inference is straightforward. If the leading position in a regional group is beneficial, which countries are *not* welcome by the state that is attempting to create it? Of course, more powerful states that deprive it of the leading position are not welcome.

**Regional Group Formation Theory:** IPRL establishes a regional group in which it can hold the leading position, by excluding SPRL(s). More specifically, in Figure 1, State B attempts to create a regional group whose boundary is Y.<sup>9</sup>

## Methodology

### *Empirical Strategy*

Three empirical strategies are employed to examine the explanatory power of the proposed theory. First, this study examines the interactions of the regionalism policies of various countries. How other countries react when an unfavorable regional project is proposed deserves close examination. Not only successful but also unsuccessful attempts are analyzed in this study, because the latter tells us why a certain country wanted to establish (supply) it and why others did not welcome (demand) it. The fact that regionalism projects sometimes fail is a neglected but important fact (Hettne, 2005, p. 556).

Second, because a theory is required to explain the behavioral patterns of states, rather than a one-off change (Waltz, 1978, p. 69), we will analyze a large number of projects to reveal the pattern of policy regarding regionalism. We will examine projects not only individually, but also collectively (as a “sequence” of projects), to reveal patterns of regionalism policies. If a country that is deprived of the leading position by the accession of a more powerful rival country abandons the expanded institution and establishes a new group excluding the rival, and such a sequence continues, the country’s membership preference can be revealed.

Third, we will classify regionalism into three issue areas: diplomatic, finance, and trade. As Mansfield and Milner (1999, p. 589) argue, many of the existing studies on regionalism are centered on trade. Classification is useful because the “cost” of being leader significantly varies across issue areas. In the case of trade, importing products from junior partners is costly, though the actual magnitude depends on institutional design – trade regionalism varies from treaty-based free trade arrangements to regional forum on trade issues. In the case of finance, provision of funds is costly. Again, the actual cost varies, from regional development banks to a regional forum on financial issues. In the case of (pure) diplomatic regionalism (e.g., a regional summit), economic costs seem unsubstantial. However, one should note that clear-cut demarcation is difficult, especially for diplomatic frameworks, because they may deal with economic-related matters.

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<sup>9</sup> One weakness of the proposed theory is that an exact area covered by the regional group proposed by IPRL is unclear. In Figure 1, it is uncertain which area, Y or Y' or Y'' is covered by a framework sponsored by State B. What is clear is that State B will not propose boundary Z (see Conclusion for the further sophistication of the theory).

## ***Case Selection***

Asia-Pacific is an interesting area in which to study group formation because it is a vast and heterogeneous area with blurred boundaries. Its parts may contend themselves to be a region rather than a sub-region. It is not surprising if various countries insist upon totally different membership configurations.

The next question is why we put special, though not exclusive, focus on Japan. There are three reasons, parallel to the empirical strategies explained above. First, geographically, Japan is sandwiched between the US and Indonesia. This implies that Japan's regionalism policies have significant interactions with their regionalism policies. To be more specific, Japan's regionalism projects can be challenged by "larger" regionalism projects led by the US and "smaller" regionalism projects led by Indonesia. Second, Japan has been a very active player in terms of regionalism. While Kent Calder's reactive state hypothesis is valid in explaining Japan's foreign policy in general (1988), it is also interesting to note that Japanese regionalism projects such as the Asian Development Bank (ADB) are often mentioned by scholars that emphasize proactive aspect of Japan's external policies (Yasutomo, 1983). By examining an enormous number of regionalism projects, we can generalize behavior patterns of Japan, and others. Third, Japan proposed regional institutions in all of the three issue areas, providing the opportunity to compare regionalism policies in various issue areas. Career officials do not move from one ministry to another (except for short term fixed transfers for limited positions) and each ministry maintains its distinctive view on policies, including those on regionalism, sometimes causing ministerial rivalry.

## ***Observable Implications***

What can be directly compared using empirical data is not a theory *per se*, but rather are observable implications from the theory (King et al., 1994, pp. 28-29). There are three observable implications derived from the theory, with regard to Japan's regionalism policy.

**Observable Implication 1:** Japan proposes (supports) a regional group that excludes the US.

**Observable Implication 2:** When a regional group including the US is proposed, Japan does not support that group. When the US joins a regional group established by Japan, Japan abandons the group, and attempts to create a new group that excludes the US.

**Observable Implication 3:** When a small regional group that excludes Japan is established (proposed), by Indonesia for example, Japan attempts to participate in it or makes a counter-proposal to take part in or establish a regional group in which it is included.

## ***Data Source***

Data used in this study principally relies on written information sources, both first- and second-hand documents.<sup>10</sup> National archives of three countries are used: the Diplomatic Record Office of Japan, the National Archives of Australia, and the National Archives of the

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<sup>10</sup> Interviews were not conducted to secure "equal" treatment among cases. It is impossible to conduct interviews with policymakers involved the regionalism projects in the early post-war era.

United Kingdom.<sup>11</sup> Official governmental documents such as the Diplomatic Blue Book and the Trade White Paper, and various governmental information available to the public are used to examine governmental policies. Memoirs and books by policymakers are important first-hand information; those written by Japanese, American and Australian officials are used. Officials' contributions to policy-related journals published by government-affiliated agencies also provide critical explanations behind the policymaking. Newspapers in both Japanese (*Nikkei Shimbun*, *Yomiuri Shimbun*, *Asahi Shimbun Sankei Shimbun*, and *Mainichi Shimbun*) and English (*Financial Times*, *New York Times* and *Australian Financial Review*, and *Korean Economic Review* etc.) are used.

## Regional Group Formation in Asia: 1950s – 2010s

This section examines the explanatory power of the proposed theory by analyzing 33 RGF projects including diplomatic (12 cases), financial (10 cases), and trade (11 cases) projects. Because such an empirical investigation is enormous in scope, we first present the result to establish a rough idea regarding the theory's validity. Table 2 summarizes the findings in line with the observable implications discussed above.

**Table 2: Actual Interactions of Regionalism Policies**

	Southeast Asia	Asia	Asia-Pacific
Diplomacy	<ul style="list-style-type: none"> <li>• ASA – Japan tried to join</li> <li>• MAPHILINDO – Japan made a counter proposal</li> <li>• ASEAN – Japan tried to join</li> <li>• ASEAN Summit – Japan made a counter proposal and then tried to join</li> </ul>	<ul style="list-style-type: none"> <li>• West Pacific Summit – Japan proposed</li> <li>• MCEDSEA – Japan proposed</li> <li>• ASPAC – Japan supported</li> <li>• Akiyama proposal – Japan (unofficially) proposed</li> <li>• Asian Summit – Japan proposed</li> <li>• Japan-ASEAN Summit – Japan proposed</li> <li>• EAS – Japan tried to include the US</li> </ul>	<ul style="list-style-type: none"> <li>• APEC Summit – Japan was reluctant</li> </ul>
Finance		<ul style="list-style-type: none"> <li>• ADF – Japan proposed</li> <li>• ADB – Japan supported</li> <li>• APBC – Japan proposed</li> <li>• EMEAP – Japan proposed</li> <li>• Four Markets Group – Japan proposed</li> <li>• AMF- Japan proposed</li> <li>• ASEAN+3 FMM – Japan supported</li> <li>• CMI – Japan proposed</li> <li>• AIIB – Japan opposed</li> </ul>	<ul style="list-style-type: none"> <li>• Six Markets Group – Japan was reluctant</li> </ul>
Trade		<ul style="list-style-type: none"> <li>• IRTPT – MOFA proposed (other ministries cautious)</li> <li>• OAEC – MOFA supported (MAFF rejected)</li> <li>• Japan-SEA PTA – MOFA proposed (MAFF rejected)</li> <li>• Asian Lomé (STABEX) – MOFA was keen, but MOF was reluctant.</li> <li>• Asian Lomé (PTA) – All ministries rejected</li> <li>• EAEC – MOFA supported (MITI opposed)</li> <li>• EAFTA – Japan did not support and counter-proposed CEPEA</li> </ul>	<ul style="list-style-type: none"> <li>• PAFTA – MOFA did not support</li> <li>• Pacific Basin Plan – PM Ohira proposed but MOFA did not support</li> <li>• APEC – MOFA was reluctant to include the US; MITI wanted to include</li> <li>• TPP – Japan decided to participate after the US</li> </ul>

Note: shaded institutions are deviant cases.

<sup>11</sup> Regarding US diplomatic records, several studies based on US archive research are used.

- **Diplomatic regionalism:** (i) Among seven diplomatic groups excluding the US, Japan proposed or supported six cases. The only diplomatic group without the US to which Japan objected was the East Asia Summit (EAS). (ii) There was one diplomatic group including the US, and Japan did not support it. (iii) There were four diplomatic groups excluding Japan led by Indonesia or the Philippines, and Japan attempted to join them, or counter-proposed the creation of alternative institutions in which it was included. Japanese and Indonesian (sometimes the Philippines) regionalism projects often compete.<sup>12</sup> (iv) With regard to sequences, when an Asian diplomatic group faded out, Japan tried to establish a new one. The Asian Summit proposal after the suspension of Ministerial Conference for Economic Development in Southeast Asia (MCEDSEA), and the Akiyama proposal after the suspension of the Asian and Pacific Council (ASPAC) are illustrative examples.
- **Financial Regionalism:** (i) There were nine financial regionalism projects excluding the US, and Japan proposed or supported eight of them. Among them, two of the projects, the Asian Development Fund (AFD) and the Asian Development Bank (ADB), were proposed or supported by Japan soon after WWII, when Japan's economic power was low. Both included the US as an external financial contributor, but excluded it from regional membership, limiting its institutional voice. The only deviant case is that of the Asia Infrastructure Investment Bank (AIIB) proposed by China; both Japan and the US have thus far declined to join. (ii) One financial regionalism project that included the US originally started as an Asia-only group; the US later joined (Six Markets Group). Japan abandoned this group soon after its expansion. (iii) With regard to sequences, when an Asian financial grouping expanded its membership to include the US, Japan tries to establish a new group excluding the US. The Japanese proposal of the Asian Monetary Fund (AMF) soon after the evolution of the Four Markets Group to the Six Markets Group, and Japan's support for the ASEAN+3 finance process after the conversion of the AMF proposal to Manila Framework Group (MFG), are illustrative examples.
- **Trade Regionalism:** Trade regionalism projects involve many ministries that have different attitudes towards trade regionalism, which applies not only to Japan but also to the US.<sup>13</sup> While the overall policy of Japan tends to be unclear because of differences across ministries, the proposed theory at least clarifies the policy preference of the Ministry of Foreign Affairs (MOFA); that is, a strong preference for Asia-only trade groupings. (i) MOFA supported four of the six projects that excluded the US, while other ministries maintained a more cautious attitude because of their concern of increased import from Asian neighbors. Hence, there are two deviant cases: the Japan-ASEAN Preferential Trade Agreement to which both MOFA and other ministries objected; and the East Asia Free Trade Area (EAFTA), excluding the US, and opposed by all Japanese ministries. (ii) Among four trade regionalism projects including the US, MOFA opposed three cases. The only deviant case is the Trans-Pacific Partnership (TPP), which Japan joined after the US.

The subsections below chronologically review RGF in Asia-Pacific after WWII, in the fields of diplomacy, finance, and trade, in turn.

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<sup>12</sup> Those include: (i) MAPHILINDO versus West Pacific Summit; (ii) Ministerial Conference for Economic Development in Southeast Asia (MCEDSEA) versus Association of Southeast Asian Nations (ASEAN); and (iii) Asian Summit versus ASEAN Summit.

<sup>13</sup> See the US reactions to the East Asian Economic Caucus (EAEC) discussed below.

## *Diplomatic Regionalism*

**Association for Southeast Asia (ASA).** ASA was established in July 1961 with the membership of Malaya, the Philippines, and Thailand. ASA was an exclusionary organization, at least from a Japanese perspective. The Philippines in particular precluded Japan from joining because it feared that Japan would assume the leadership (Kesavan, 1972, p. 155). In fact, in late 1961, Ōkita Saburō, a high-ranking official who later became foreign minister, asked the Philippines Foreign Minister, Felixberto Serrano, whether Japan's future participation in ASA was possible. Serrano's answer was negative. Ōkita then started to think that not only cooperation in Southeast Asia, but also a cooperation covering a wider region necessary (Ōkita, 1966, p. 16).

**West Pacific Summit.** Prime Minister Ikeda had the idea to organize the West Pacific Summit among five Pacific states (Japan, Indonesia, Philippines, Australia and New Zealand) in Tokyo in 1964 to discuss two issues. First, a peaceful solution of the Indonesia-Malaysia dispute was expected as an immediate result of the summit. Second, the establishment of the West Pacific Organization, a Pacific version of the Organisation for Economic Co-operation and Development (OECD), was expected, though it was believed to be a long-term project.<sup>14</sup> In order to win support from the partner countries, the West Pacific tour was organized in September 1963. Ikeda visited the US Ambassador to Japan, Edwin O. Reischauer, just two days before his departure, and Reischauer supported Ikeda's idea. However, the US State Department directed Reischauer against support of the West Pacific Summit. The US preferred to support the MAPHILINDO Summit sponsored by the Philippines, rather than supporting the Japanese summit proposal (Miyagi, 2004, pp. 63-64<sup>15</sup>).

**MAPHILINDO.** MAPHILINDO was a regional framework among Malaysia, Indonesia and the Philippines to mitigate the neighbor states' strong confrontational attitude to the forthcoming launch of the Federation of Malaysia, which had been announced in November 1961. The foreign ministers' meeting among the three countries was held in June 1963, and the Manila Accord was adopted, stipulating that the first summit would be held by the end of July (Haas, 1974, pp. 1261-63). Only two months after the Manila Accord, Ikeda proposed the West Pacific Summit. The two summits were in competition, because their purposes overlapped. The Philippines' government leaked Ikeda's idea for the West Pacific Summit soon after the Ikeda-Macapagal meeting to nullify the idea,<sup>16</sup> despite Japan's request to keep it secret, frustrating Ikeda.<sup>17</sup>

**Ministerial Conference for Economic Development in Southeast Asia (MCEDSEA).** At the annual Japan-US ministerial meeting held in July 1965 in Washington, the US requested Japanese assistance to help materialize President Johnson's plan regarding Southeast Asian development. Japan, however, made a counter-proposal introducing MCEDSEA, insisting that the American plan to support only pro-US states in Southeast Asia was insufficient to promote the region's economic development. The US response to the MCEDSEA plan was unfavorable (Yagisawa, 1967, p. 13). The Washington Post opined that MCEDSEA illustrated Japan's ambitions to play a large political and economic role in Asia by

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<sup>14</sup> *Yomiuri Shimbun*, September 16, 1963.

<sup>15</sup> His study is based on the US State Department archives.

<sup>16</sup> *Asahi Shimbun*, September 26, 1963.

<sup>17</sup> *Asahi Shimbun*, October 5, 1963.

reproducing the Great East Asian Co-prosperity Area.<sup>18</sup> However, the US government did not reject the proposal entirely, partly because US officials underestimated the political significance of MCEDSEA. In fact, Dean Rusk, then Secretary of State, regarded MCEDSEA as a Japan-led agricultural project (Rusk, 1987).

The first MCEDSEA meeting was held in April 1966 in Tokyo, with the participation of Japan, South Vietnam, the Philippines, Laos, Thailand, Malaysia, Singapore, and Indonesia and Cambodia both present to observe. Japan hoped to establish a secretariat in the first meeting to legitimize MCEDSEA as a full-fledged regional institution, but the other members opposed this.<sup>19</sup> There was a concern among Asian countries that the secretariat would be institutionalized in Tokyo, which may have led to Japanese leadership in Asian cooperation, and hence the other members insisted on the venue being elsewhere.<sup>20</sup>

From the Japanese perspective, MCEDSEA provided a diplomatic framework. MOFA had proposed it, and the head of the Japanese delegation was always the Foreign Minister. However, for Southeast Asian countries, MCEDSEA had the aspects of an economic developmental framework. In fact, the heads of the representatives to the conference of Southeast Asian countries were often Economic Development Ministers. Southeast Asian countries regarded MCEDSEA as a tool to increase Japanese Official Development Assistance (ODA). Because of dissatisfaction on the Southeast Asian-side, no more MCEDSEA meetings were held after 1975.

**Association of Southeast Asian Nations (ASEAN).** ASEAN was launched in August 1967. Indonesia was particularly enthusiastic about its creation, because joining a new organization would be much better for Indonesia than simply joining the existing ASA (Morrison and Suhrke, 1978, pp. 225-26). Japan was interested in membership of ASEAN, though the Japanese government did not officially apply for it. In August 1967, one month after ASEAN's establishment, Kai Fumihiko, the Japanese Ambassador to Malaysia, stated at a press conference that Japan expected membership of ASEAN.<sup>21</sup> In response, Indonesian Foreign Minister, Adam Malik, asserted that Japan's accession to ASEAN was impossible because of its geographical location.<sup>22</sup>

The Japan-led MCEDSEA and Indonesia-led ASEAN competed. Officials in Tokyo turned to MCEDSEA after ASEAN's rejection of Japanese membership (Sudo, 1988, p. 511). As the former Deputy Minister for Foreign Affairs admits, the Japanese government considered that MCEDSEA, which included Japan, was more effective than ASEAN as a platform for regional cooperation (Kikuchi, 2004, p. 89). During his state visit to Southeast Asia in September 1967, Prime Minister Satō refused to discuss Japanese assistance through ASEAN, because he did not want to support capacity development of ASEAN in competition with MCEDSEA (Sudo, 1988, p. 511). Indonesia also perceived the two as competing. In the eighth MCEDSEA meeting held in Tokyo, the head of the Indonesian delegation asserted: "We consider that ASEAN is the most appropriate regional framework. We understand that other groupings should complement it."<sup>23</sup>

**Asian and Pacific Council (ASPAC).** ASPAC was established in June 1966. The original

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<sup>18</sup> Cited in *Asahi Shimbun*, April 7, 1966.

<sup>19</sup> *Asahi Shimbun*, October 13, 1965.

<sup>20</sup> *Asahi Shimbun*, October 14, 1973.

<sup>21</sup> *Asahi Shimbun*, August 21, 1967. Also see Sudo (1988, 510).

<sup>22</sup> *Asahi Shimbun*, August 31, 1967.

<sup>23</sup> *Asahi Shimbun*, October 14, 1973.



members of ASPAC were South Korea, Japan, Taiwan, the Philippines, Thailand, Malaysia, South Vietnam, Australia, New Zealand, and Laos (observer). South Korea launched ASPAC as a military framework. Japan initially maintained its distance from the security-oriented ASPAC, and did not promptly agree to send delegates to the first meeting.<sup>24</sup> The third meeting, hosted by Australia, was a watershed in terms of the transformation of ASPAC, because it was agreed that the security tone of the organization should be weakened.

The fourth ASPAC meeting was hosted by Japan in 1969, in Tokyo. Japan was attracted to ASPAC because it did not include the US. In the opening ceremony, Prime Minister Satō stated that ASPAC's value lie in the fact that it includes only East Asia, Southeast Asia, and the South Pacific, and proposed to call the region covered by ASPAC "Pacific Asia." Other countries also regarded non-inclusion of the US and Japanese centrality as the distinctive feature of ASPAC. For example, the Australian Minister for External Affairs, Paul Hasluck, states in his report about the second ASPAC meeting that ASPAC is an Asian organization which includes Australia but not the US, and concludes that Australia's association with Japan in ASPAC enables Australia to exert an influence on Japan's regionalism policies (Australian Minister for External Affairs, 1967).

**The Akiyama proposal.** Following US President Nixon's visit to Beijing in 1972, ASPAC lost its momentum. Japan was interested in the establishment of an ASPAC-like new institution when the abolishment of ASPAC became likely. The document produced at the Australian Embassy in Tokyo in 1972 reported Akiyama, the head of the Asian Regional Policy Division of MOFA, as remarking that if ASPAC were to fade away, a new regional organization would replace it, and inclusion of the ASEAN countries New Zealand, Australia, Japan, and Korea, would be necessary (Australian Embassy in Tokyo, 1972).

**Asian Summit.** The first G6 Summit was held in November 1975, in Rambouillet, France. Japanese Prime Minister Miki Takeo considered that Japan should participate in the Summit as an Asian representative, and collected "the voice of Asia" by sending an envoy to ASEAN countries both before and after the Summit.<sup>25</sup> After the Summit, he felt that hosting an "Asian version of [the] Summit" would be beneficial. However, such a plan proved difficult to enact, because the first ASEAN Summit was planned by its members.

**ASEAN Summit.** Miki, then, changed Japan's strategy, and attempted to participate in the ASEAN Summit.<sup>26</sup> The trilateral foreign ministers' meeting of the Philippines, Singapore, and Thailand, on January 16 reached a decision to invite Miki.<sup>27</sup> The Indonesian Foreign Minister, Adam Malik, however, insisted on January 26 that the ASEAN Summit was the summit for ASEAN members and that a non-member's leader could not participate in it.<sup>28</sup> At the ASEAN Ministers' Meeting on February 10, 1976, members discussed the question of Japanese participation; Indonesia rejected the idea, while others were in favor of it.<sup>29</sup> Funabashi (1995, p. 344) explains that ASEAN emphasized maintaining a "distance" between Japan and ASEAN, by refusing to invite Miki to the ASEAN Summit.

What is to be noted is that the timing envisaged by Miki for the idea of an Asian Summit and Japanese participation in the ASEAN Summit coincided with the period when MCEDSEA's

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<sup>24</sup> *Asahi Shimbun*, February 23, 1966.

<sup>25</sup> *Nikkei Shimbun*, November 28, 1975.

<sup>26</sup> *Nikkei Shimbun*, January 25, 1976.

<sup>27</sup> *Asahi Shimbun*, January 22, 1976.

<sup>28</sup> *Reuter*, January 26, 1976, cited in *Nikkei Shimbun*, January 27, 1976.

<sup>29</sup> *Asahi Shimbun*, February 10, 1976.

abolition became likely. Gordon (1977-78, p. 580) observes that when Japan gave up sustaining MCEDSEA in 1976, it hoped instead to be invited to participate in the ASEAN Summit. The abolition of MCEDSEA forced Japan to create a new regional framework in which it could be involved.

**Asia-Pacific Economic Cooperation (APEC) Summit.** APEC was established as a trade regionalism project in 1989 (see section on trade for details). It was Australian Prime Minister Paul Keating who first proposed the APEC Summit. He consulted with US President George H. W. Bush about the idea in early 1992. While Bush manifested interest in Keating's proposal, he preferred to delay involvement until there was a wide consensus. Partly because Bush had not been enthusiastic about the proposal, it was easy for the new administration, which started in January 1993, to initiate it (Funabashi, 1995, p. 82). President Bill Clinton officially proposed to host the first APEC Summit in his July 1993 speech in San Francisco made prior to his Asian tour. The Summit was actually held in November of the same year in Seattle.

Japan was reluctant to support the upgrade of APEC to the level of a summit. In April 1992, Keating sent out a letter, in which the idea of an APEC summit was explained to the leaders of APEC members. While he received positive replies from the others, Japan was said to have been reticent about the proposal (ibid., p. 83). Moreover, although Keating urged Japanese Prime Minister Miyazawa Kiichi to support the APEC Summit when he visited Japan in May 1993, Japan did not finally approve it until July 1993, when the establishment of the APEC Summit became inevitable (ibid., p. 193). A senior US official also recalled that Japan was reluctant to accept the APEC Summit due to its initiation by the US (ibid., p. 287).

**East Asia Summit (EAS).** The first ASEAN+3 Summit was held in December, 1997.<sup>30</sup> China attempted to convert the ASEAN+3 Summit to EAS, because the "plus three countries (China, Japan and Korea)" are treated as guests in the former. At the China-ASEAN Foreign Ministers' Meeting in Qingdao in June 2004, China expressed its desire to host EAS. At the ASEAN+3 Foreign Ministers' Meeting in July 2004, China officially proposed EAS, including only ASEAN+3 countries, but Japan submitted an issue paper on membership, expressing its disagreement with the membership formulation (MOFA, 2004). At the ASEAN+3 Foreign Ministers' Meeting in May 2005 in Kyoto, inclusion of India, Australia and New Zealand was agreed upon, reflecting Japan's preference for membership. Because of opposition from others including China, Japanese Foreign Minister, Machimura Nobutaka, was unsuccessful in his proposal to invite the US to attend as an observer.<sup>31,32</sup>

### ***Financial Regionalism***

**Asian Development Fund (ADF).** Prime Minister Kishi Nobusuke shared his idea of establishing ADF with US President Dwight D. Eisenhower in June 1957 in Washington. Committee chaired by Kenneth Young examined Kishi's proposal and concluded in September that the US should not support ADF. This is interesting because the idea of establishing a framework for Asian economic development originally came from the US government (Kaufman, 1982, p. 161). Huang (1975, p. 18) explains that the US rejected

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<sup>30</sup> Japan was keen to host the Japan-ASEAN Summit. But ASEAN sought to include China in the summit, in order to not provoke it (*Asahi Shimbun*, January 15, 1997).

<sup>31</sup> *Sankei Shimbun*, May 7, 2005. Interestingly, the US did not support Machimura's idea because it did not want to assume the "back-seat" of an observer (*Asahi Shimbun*, May 15, 2005).

<sup>32</sup> The US joined EAC in 2010 as an observer and as a full member after 2011.

Kishi's proposal because it relied heavily upon American financing while retaining essentially Japanese arrangements, nor did it give the US much of a direct management voice. The Japanese government attempted to establish "the ADF without the US," when American contribution appeared unlikely in September 1957,<sup>33</sup> supporting the view that the ADF was a Japan-sponsored project. The size of the fund was scaled down to one-fifth of the original ADF proposal. The US was not supportive even of this.<sup>34</sup> Japan eventually abandoned this plan, because the financial burden was too large.

**Asian Development Bank (ADB).** In October 1962, a study group to explore the possibility of establishing a regional development bank was formed by Ministry of Finance (MOF). After one year of monthly studies, the group prepared a proposal paper which explained what were to be several important features of the bank: (i) equal contributions would be made as between Japan and the US; (ii) it would have a Japanese President; and (iii) it would be headquartered in Tokyo. Watanabe, the study group chair, consulted US government officials about the plan in Washington in September 1963. The US response was, however, unenthusiastic (Huang, 1975, p. 23).

Meanwhile, in January 1963 at the fifth United Nations Economic Commission for Asia and the Far East (ECAFE) Intra-Regional Trade Promotion Talk (IRTPT, see below), a Thai delegate mentioned the idea of creating a regional financial institution. At ECAFE's first ministerial meeting held by regional members in December 1963 in Manila, ministers agreed to conduct a study on establishing a regional bank. Taking this opportunity, Japan attempted to revitalize its previous idea. Experts from eight regional members of ECAFE first held a meeting in October 1964, with Watanabe represented Japan. Experts agreed to carefully design the ADB to be led by regional countries (Watanabe, 1973, p. 16). The consultative committee among nine Asian countries<sup>35</sup> in Bangkok in June 1965 agreed to include the US as a non-regional member (Huang, 1975, p. 72). The preparatory meeting was held in Bangkok in October 1965; non-regional ECAFE members were also invited, unlike for past meetings. Because almost all details of the bank had already been scrutinized, many non-Asian countries were unhappy, and some, such as France, did not even send delegates (*ibid.*, p. 85).

However, the US pledged a contribution to the ADB at the preparatory meeting. This is interesting because many US senior officials recall that the US government did not intend to join the ADB, even in March 1965 (Rostow, 1986, p. 8; Black, 1969, p. 97). President Johnson's speech in Baltimore on April 7 1965, which mentioned US aid to Southeast Asia, was the turning point of its ADB policy. The essential reason was its involvement in the war in Vietnam (White, 1970, p. 44). In fact, the speech was made just a few weeks after the US began bombing North Vietnam. The US expected that its support of the ADB could mitigate anti-US sentiment in Asia. It also attempted to reduce Japanese influence in the ADB. While the US did not have a right to vote for the location of the bank, it was supportive of Manila, which was eventually realized (Kashiwagi, 1998, p. 71). The US concern was that Japan would become too influential in the ADB if it obtained both the presidential position and the headquarter site (Wesley, 2003, p. 27).<sup>36</sup>

**Asia Pacific Bankers' Club (APBC).** The APBC is an Asian version of the International

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<sup>33</sup> *Mainichi Shimbun*, September 6, 1957.

<sup>34</sup> *Mainichi Shimbun*, September 24, 1957, evening edition.

<sup>35</sup> Japan, Philippines, Thailand, Malaysia, Vietnam, India, Pakistan, Ceylon and Iran.

<sup>36</sup> Another important reason is Japan's low posture (Huang, 1975, p. 39; Yasutomo, 1983, p. 39).

Monetary Conference (IMC) dominated by Western bankers (Fujioka, 1981). The first APBC gathering was held in Tokyo in April 1981. Although the members of APBC were private bankers, it is not a purely private body, because Fujioka Masao, a former Director General of MOF, was the founding father.<sup>37</sup> Its membership was limited to bankers from Japan, South Korea, Hong Kong, the Philippines, Singapore, Malaysia, Thailand, Indonesia, Australia, and New Zealand.<sup>38</sup> There was a consensus among Japanese policymakers that the non-inclusion of American banks is APBC's distinctive feature (Fujioka, 1981, p. 246). While Fujioka insists that APBC is not exclusive, he rejected all membership requests from non-"Asia Pacific" bankers, wavering only when upon request from a Hawaiian bank. He visited Hawaii in August 1980, and stated that he would favor establishment of a new club only for the Western inhabitants of the Pacific at this time (ibid, p. 246).

**Executives' Meeting of East Asia and Pacific Central Banks (EMEAP).** The Bank of Japan (BOJ) established EMEAP in 1991, as deputy-level meetings. The original members were: Japan, South Korea, Indonesia, Malaysia, Singapore, the Philippines, Thailand, Australia and New Zealand. China and Hong Kong joined in 1992 and 1993, respectively. The speech made by the Governor of the Reserve Bank of Australia, Bernie Fraser, in September 1995, calling for an Asian version of the Bank for International Settlement (BIS), was the catalyst which triggered the institutionalization of EMEAP (Fraser, 1995, p. 24). In July 1996 in Tokyo, the first Governors' meeting was held and three working/study groups parallel to BIS organizations were established thereafter (Lee, 2002, p. 327).

After the upgrade, the US Federal Reserve Board (FRB) unsuccessfully attempted to use Treasury Bill repossession arrangements among EMEAP members to try to negotiate its membership (Yokoi-Arai, 2002, p. 218). It is curious that the US suddenly requested membership in the mid-1990s. The most plausible reason for its doing so is that EMEAP was confidential (EMEAP, 2003), and the US did not recognize its existence.<sup>39</sup> Werner (2003) points out that BOJ was successful in creating an "exclusive" club, because it is little known to the public and has maintained a low profile (also see Hook et al., 2002). The US might have suddenly become aware of EMEAP's existence after the Fraser proposal (Oritani, 1997), and decided to request membership: the second-best choice, because abolishing EMEAP was not a realistic option.

**Four Markets Group.** Meanwhile, the Four Markets Group first met in 1992 under the initiative of MOF. The then-Vice Finance Minister, Chino Tadao, believed that Asia should have its own voice in the international financial community, rather than merely following the US.<sup>40</sup> The members of the group included Japan, Hong Kong, Singapore and Australia. The purpose of the group was to strengthen the relationship among regional financial authorities and to exchange market information, particularly that as related to the foreign exchange market.

**Six Markets Group.** The Four Markets Group upgraded to the Six Markets Group in March 1997, with the addition of US and Chinese membership. It is said that this upgrade was organized by the US (Ostly, 1997). The then-Vice Finance Minister for International Finance, Katō Toshihiko, who chaired the first Six Markets Group meeting, also recalls that the US

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<sup>37</sup> Fujioka served as the fourth ADB President between 1981 and 1989.

<sup>38</sup> *Nihon Kinyū Tsūshin*, January 26, 1981.

<sup>39</sup> The article in *Far Eastern Economic Review* on October 17, 1991 is perhaps the only article that touched on EMEAP. However, the article did not even mention the name "EMEAP" and it mistakenly reported that the meeting was an annual event.

<sup>40</sup> *Australian Financial Review*, February 26, 1997.

“heard” of the existence of the Four Markets Group and joined the group (Katō et al., 2002). The US did not consider the group useful, unlike APEC, but decided to join because it did not want to be excluded from regional financial cooperation.<sup>41</sup>

While the Six Markets Group was called the “Asian G7,”<sup>42</sup> MOF lost interest in the Group. Since the third Six Markets Group meeting in February 1999, no further meetings have been held. What is interesting is that MOF revived the Four Markets Group in September 1999, successfully excluding the US and China.<sup>43</sup> The revived Four Markets Group produced a study on the development of regional bond markets and regional credit-rating agencies. However, after the prospect of the ASEAN+3 financial process became promising around 2000, MOF seems to have prioritized the ASEAN+3 over the Four Markets Group.

**APEC Finance Ministers’ Meeting (APEC FMM).** The US proposed to establish the APEC Finance Ministers’ process at the first APEC Summit in 1993 in Seattle. The first APEC FMM was held in Honolulu in March 1994, with an understanding among concerned parties that it was a one-time only event. While APEC’s Asian members, including Japan, were reluctant to annualize it, US officials unofficially expressed the view that regular hosting of APEC FMM was desirable.<sup>44</sup> The US prioritized the annualization of APEC FMM, and decided against urging Asian countries to liberalize financial markets.<sup>45</sup> As a result, annualization of the APEC FMM was agreed upon.

The establishment of the APEC FMM precipitated the MOF’s anxiety. A Sankei editorial argued that the US would directly lead Asian countries in the Asia-Pacific financial framework, although Japan could have played some intermediate role between Asian and the US if there had been no such framework.<sup>46</sup> In fact, soon after the establishment of APEC FMM, MOF founded the Japan-ASEAN FMM. Funabashi (1995, p. 214) observes that MOF was more interested in strengthening ties with its counterparts in ASEAN countries than supporting an APEC finance process.

**Asian Monetary Fund (AMF).** While it is not widely known, the origin of AMF dates back before the 1997 Asian financial crisis. Kuroda (a senior MOF official) hit upon the idea of creating a regional monetary fund, when Fraser proposed the Asian version of BIS in September 1995 (Kuroda, 2004, p. 98). MOF planned to propose an AMF, at the margin of ADB annual meeting in May 1997, but postponed doing so. During the financial crisis, at the Thai rescue meeting held in Tokyo in August 1997, certain Asian countries<sup>47</sup> agreed to contribute; the US refused to do so, despite its presence in the meeting. Japan planned to establish the AMF with contributors of the Thai package; the fact that the US did not contribute was used by Japanese officials as a good excuse to exclude the US. In September, Japan sent out invitations to discuss the AMF to all prospective members; the US was not included in the recipient list.

**Manila Framework Group (MFG).** The US obtained the unofficial outline paper on the AMF somehow and insisted upon participating in the AMF preparatory meeting as an observer. At the meeting, the US expressed strong objection to the AMF, and made a counter-

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<sup>41</sup> *Korean Economic Review*, March 13, 1997.

<sup>42</sup> *Yomiuri Shimbun*, March 6, 1997.

<sup>43</sup> *Nikkei Shimbun*, August 22, 1999.

<sup>44</sup> *Financial Times*, March 21, 1994; *Sankei Shimbun*, March 10, 1994.

<sup>45</sup> *Yomiuri Shimbun*, March 23, 1994.

<sup>46</sup> *Sankei Shimbun*, January 17, 1994.

<sup>47</sup> Japan, Indonesia, Malaysia, Singapore, Brunei, South Korea, China, Hong Kong and Australia.

proposal to establish the MFG,<sup>48</sup> reflecting the US intention to thwart the idea of an Asian-only group led by Japan. According to Blustein (2001, p. 168), Mr. Geithner, of the US Treasury, prepared an internal report in which he argued that some arrangement is necessary to avoid an Asian-only group. MOF officials felt that the intent of the MFG proposal was to block the creation of the AMF (Kuroda, 2004, p. 104). It should be noted that the US opposed the creation of the AMF, not the creation of a regional monetary fund *per se*. Fred Bergsten (1998) clearly argues for the usefulness of the Asia-Pacific Monetary Fund, including the US in its membership.

**ASEAN+3 Finance Ministers' Meeting (ASEAN+3 FMM).** At the second ASEAN+3 Summit in December 1998, China proposed establishing the ASEAN+3 financial process.<sup>49</sup> The first ASEAN+3 FMM was held in April in Manila. At the third ASEAN+3 Summit in November 1999 in Manila, China proposed to regularize the meetings of the ASEAN+3 FMM. Japan supported this proposal and the ASEAN+3 FMM was regularized (Kikuchi, 2001, 23). Sakakibara (a senior MOFA official) explained, "I think that the era of APEC was already over. This is because APEC includes the US. However, ASEAN+3 does not include the US. Regional cooperation including the US is rarely meaningful, because the inclusion of the US is merely a synonym of global cooperation" (Sakakibara et al., 2001, p. 16). Under Japanese leadership, the financial regionalism project called the "Chiang Mai Initiative" (CMI), a web of swap agreements among financial authorities in the region, was agreed upon at the second ASEAN+3 FMM, held in May 2000 in Chiang Mai, Thailand.

The US did not support the "independent" CMI and insisted that disbursement of CMI money should be linked with IMF conditionality. As a result, Asian countries would need to agree that only 10% of CMI's total facilities could be disbursed without IMF involvement. The US position was that CMI should have consultative arrangements with the US and IMF (Henning, 2002, pp. 65-66). Meanwhile, China did not support independence of CMI. China insisted on a 100% linkage of CMI's facilities with IMF (Amyx, 2004, p. 213). The "indirect" inclusion of the US in CMI was ideal for China, because it could thus avoid both the US- and Japanese-dominated frameworks.

**Asia Infrastructure Investment Bank (AIIB).** China announced its AIIB proposal at the APEC Summit in Bali on October 8, 2013, during which the US president was absent. On the first evening of the ADB annual meeting on May 2, 2014, in Kazakhstan, delegates from 16 countries skipped the scheduled dinner and joined a dinner organized by China to discuss the AIIB. The US, Japan and India were not invited to this dinner meeting.<sup>50</sup> However, China invited India to join the AIIB in the following month and a Memorandum of Understanding (MOU) was signed in Beijing on October 24, 2014. The MOU set the principal modality of the AIIB, including establishing the location of the headquarters in Beijing. China set the deadline for expressing interest in original membership in the AIIB as the end of March 2015, and more than 50 countries expressed their interest. Some European countries, including the UK, expressed interest, and Australia and South Korea eventually followed, despite US pressure not to join. China attempted to involve Japan in late 2014, when the institutional details of the AIIB were decided.<sup>51</sup> However, together with the US, Japan decided to keep its distance from the AIIB.

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<sup>48</sup> Japan, China, Hong Kong, South Korea, Indonesia, Malaysia, Singapore, Brunei, Philippines, Thailand, Australia, New Zealand, the US and Canada.

<sup>49</sup> *Asahi Shimbun*, December 17, 1998.

<sup>50</sup> Bloomberg, May 12, 2014.

<sup>51</sup> It is reported that China offered the vice president position to Japan (*Nikkei Shimbun*, April 14, 2014).

## ***Trade Regionalism***

**Intra-Regional Trade Promotion Talk (IRTPT).** Japan launched the idea of creating IRTPT at the 1957 ECAFE session. IRTPT was a committee under ECAFE where trade experts from ECAFE's regional members<sup>52</sup> could exchange views on regional trade facilitation. Huang (1975, p. 27) claims that the mandate of the IRTPT was to exclude non-regional members of ECAFE. As Wightman (1963, p. 254) argues, Japan made this proposal mainly based on diplomatic considerations, because its idea for the IRTPT stemmed from the United Nations Bureau of MOFA, whereas its Economic Bureau and Ministry of International Trade and Industry (MITI) were concerned more about the possible economic costs of IRTPT.

The US expressed its “considerable doubts” as to the utility of IRTPT at the 1958 ECAFE session (ECAFE, 1958, p. 114). A vote was called for at the end of the session and the Japanese proposal was adopted, because all non-regional members other than Australia and New Zealand<sup>53</sup> eventually abstained (Wightman, 1963, p. 254). This is mainly because of the Lahore Agreement adopted in the 1952 session, which is a kind of “gentlemen’s agreement” that non-regional members should abstain from remarks on regional cooperation among regional members (ibid.).

Japan’s intentions with the IRTPT proposal were to create a trade forum, not an FTA. Japan made this point very clear at the 1958 ECAFE session (ECAFE, 1958, p. 103). However, Asian countries naturally requested Japan to increase imports of Southeast Asian products under the IRTPT scheme. For example, at the first IRTPT in 1959, Thailand and Burma urged Japan to buy their rice, while Japan rejected to do so (Wightman, 1963, p. 256). Partly because Japan was unable to satisfy these Asian countries’ requests, IRTPT lost momentum by the early 1960s.

**Organization for Asian Economic Cooperation (OAEC).** The ECAFE Executive Secretary convened a consultative group of experts in 1961 to further study measures to facilitate regional trade. The group recommended the establishment of the OAEC, which was expected to have a strong institutional framework including headquarters, unlike the IRTPT, but its membership was limited to the regional members of ECAFE just like the IRTPT (Singh, 1966, p. 159). In January 1962, ECAFE sent out the OAEC proposal to ECAFE regional members, but the UK obtained the proposal on behalf of Hong Kong, and shared it with the US. The US subsequently questioned the Executive Secretary’s wisdom in excluding non-regional members (Singh, 1966, p. 160). At a high ranking officials’ meeting between Japan and the US, Mr. Doherty, an American representative, insisted that the OAEC could be viewed as exclusionary and thus the inclusion of a non-regional member was essential (Gaimushō, 1962a).

Japanese policymakers’ views on OAEC were “hopelessly divided,” as Singh (1966, p. 160) and Korhonen (1994, p. 122) suggest. Striking a proper balance between diplomatic benefits and economic costs of the OAEC were very difficult. The documents produced at the British Embassy in Tokyo argued that for those Japanese officials still opposed to the establishment of an exclusively Asian group from which Japan might be under pressure to provide funds,

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<sup>52</sup> In 1957, the US, the UK, France, the Netherlands, the USSR, Australia and New Zealand were non-regional members of ECAFE (Singh, 1966, p. 44).

<sup>53</sup> In 1963, Australia and New Zealand became regional members.

OAEC may be intriguing from a diplomatic perspective (British Embassy in Tokyo, 1962). At the cabinet meeting in February 1962, Foreign Minister Kosaka Zentarō expressed positive views on OAEC, while other ministers were critical of his comments.<sup>54</sup> The final decision of the Ikeda Administration was that Japan would not support OAEC, because it would result in pressure on Japan to import primary products and damage domestic agriculture.<sup>55</sup> Kōno Ichirō, the then-Agriculture Minister, strongly opposed it (Hoshiro, 2005). The explanation of Ōkita (1962, p. 32) regarding Japan's perception of OAEC is plausible, stating that OAEC was rejected because there was a misunderstanding that OAEC would develop as an FTA.

**Japan-Southeast Asia Preferential Trade Agreement (PTA).** When he assumed the Office of Foreign Minister in 1966, Miki Takeo advocated in favor of the Asia-Pacific Sphere policy. He instructed MOFA officials to examine possible options for his policy.<sup>56</sup> MOFA was of the view that the creation of a Japan-Southeast Asia PTA was the ideal option, and domestically launched the idea in March 1967. The PTA would mainly cover agricultural and light industrial products, and the countries covered by the PTA were Southeast Asian countries- Taiwan and South Korea.<sup>57</sup> When Miki sounded the idea of the PTA at the MCEDSEA meeting in April 1967, Southeast Asian countries strongly urged the realization of the plan.<sup>58</sup>

However, the Japan-Southeast Asia PTA did not become an official proposal of the Japanese government, and the idea faded away. When MOFA launched the idea of the PTA, a *Nikkei* editorial immediately pointed out that Japan's interest was in non-discriminatory trade and that the provision of preferential treatment to Southeast Asian products was difficult, due to the possible damage to Japan's light industries and to the negative impact on domestic small- and medium-sized enterprises.<sup>59</sup>

**Pacific Free Trade Area (PAFTA).** After the failure of the PTA project, Miki realized the limited capacity of Japan to solve the development problems in Asia. In mid-1967, Miki finally outlined the elements of the Asia-Pacific Sphere policy in his speech at the Japan Committee for Economic Development (Keizai Dōyūkai) on May 22, 1967. One of the most important elements was to promote an awareness of a shared destiny among Asian and Pacific countries, and to solve North-South problems in the context of the Asia-Pacific region (Terada, 1998, p. 342). Meanwhile, Kojima Kiyoshi, a professor at Hitotsubashi University, proposed the formation of PAFTA, consisting of Japan, the US, Canada, Australia and New Zealand, as early as 1965.

Partly as a result of Miki's advocacy of the Asia-Pacific Sphere policy, the Japan Economic Research Center held the Pacific Trade and Development Conference (PAFTAD) in 1968 with financial assistance from the MOFA. The purpose of the conference was to examine the feasibility of the PAFTA proposal, and it was attended by economists from the five prospective members, including the US. The participants reached a consensus that the formation of PAFTA was premature (Cooper, 1968). The MOFA also held a negative view of PAFTA. A senior MOFA official argued that the inclusion of the US in trade regionalism would lead to an increase in US influence on regional economic cooperation (Katō, 1967, p.

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<sup>54</sup> *Nikkei Shimbun*, February 7, 1962, evening edition.

<sup>55</sup> *Yomiuri Shimbun*, February 15, 1962, evening edition.

<sup>56</sup> *Yomiuri Shimbun*, December 22, 1966.

<sup>57</sup> *Nikkei Shimbun*, March 27, 1967, evening edition.

<sup>58</sup> *Mainichi Shimbun*, April 30, 1967.

<sup>59</sup> *Nikkei Shimbun*, March 27, 1967.



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**Asian Lomé Convention.** Miki Takeo became Prime Minister in December 1974. Before attending the Rambouillet Summit in November 1975, Miki expressed the view that he would like to establish an Asian version of the Lomé Convention<sup>60</sup> (Nakamura, 1981, 131). The Lomé scheme consisted of two components: (1) to provide non-reciprocal preferential treatment for primary products from developing members; (2) to establish the Stabilization of Export Earnings (STABEX) system that compensated developing members' income from exports of primary products when the commodity price declined. According to Nakamura Keiichirō, who was a secretary to Miki, MOFA was very supportive of the Asian Lomé proposal, though MOF was reluctant (ibid, 134).

Because of the opposition from MOF, Miki did not launch the proposal at Rambouillet, but the idea survived in ASEAN. The ASEAN Economic Ministers' Meeting in June 1977 reaffirmed the importance of realizing Asian Lomé Convention and decided to send joint delegations to Japan to discuss the issue in detail before Japan-ASEAN Summit planned in August 1977.<sup>61</sup> On 7 July, a meeting among director general officials from various ministries was held on this issue, and most officials were supportive of introducing the STABEX system,<sup>62</sup> with a notable exception of MOF. Meanwhile all were reluctant to establish a regional PTA with ASEAN.<sup>63</sup> The *Nikkei* article convincingly argued that the introduction of a regional PTA was difficult because it would damage Japan's domestic producers, while providing aid through the STABEX system was easy because it would not entail domestic adjustments. Japanese government informed the ASEAN joint delegates on 17 July that Japan disagreed with the formation of the Japan-ASEAN PTA, while it was prepared to study the STABEX system.<sup>64</sup>

**Asia-Pacific Economic Cooperation (APEC).** During his state visit to the US in January 1988, Prime Minister Takeshita Noboru was told by Senate Majority Leader Robert Byrd that the US was planning to study a Japan-US FTA (Hatakeyama, 1996, p. 140). After Takeshita's return to Japan, the Study Group on Asia-Pacific Trade and Development was formed and the "Sakamoto report" was delivered in June 1988.<sup>65</sup> The report proposed to hold a ministerial meeting among Japan, the US, Canada, Australia, New Zealand, Asian NICs and ASEAN countries in order to secure the US economic presence in Asia, with an expectation that the US would continue importing (Hatakeyama, 1996, p. 142).<sup>66</sup> The English version of the Sakamoto report was sent to the US and other prospective members (Krauss, 2000, p. 479). MITI suggested Australia should take the lead, however (Funabashi, 1995, p. 61). Australian Prime Minister Bob Hawke visited Seoul in January 1989, and launched the idea of regional cooperation in his speech. Hawke proposed to found an Asian OECD that aimed to establish a regular process of consultation and analysis on economic issues (Hawke, 1989, p. 6). It is said that Hawke listed ten countries as potential members of the institution: Australia, Japan, New Zealand, South Korea and the then-ASEAN 6 (Ravenhill, 1998, p. 154). James Baker III, then the US Secretary of State, also recalls the

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<sup>60</sup> The Lomé Convention was a trade agreement signed in 1975 by European countries and their former colonies.

<sup>61</sup> *Nikkei Shimbun*, June 30, 1977

<sup>62</sup> Only MOF displayed a cautious view on the proposed STABEX system.

<sup>63</sup> *Nikkei Shimbun*, July 8, 1977

<sup>64</sup> *Asahi Shimbun*, July 17, 1977. At the Summit Prime Minister Fukuda expressed his understanding to STABEX, but not PTA (*Asahi Shimbun*, August 7, 1977). STABEX was not eventually established, partly because what was critical for ASEAN was PTA portion of Asian Lomé, not STABEX alone.

<sup>65</sup> The Study Group on the Japan-US FTA was also formed, but no concrete proposal was made.

<sup>66</sup> Hatakeyama took up the MITI Vice Minister position in 1991.

Hawke proposal did not include the US (Baker, 1995, p. 609).

MITI disagreed with the non-inclusion of the US, and sent officials to Southeast Asia to lobby for US membership (Hatakeyama, 1996, p. 146). In March 1989, MITI Vice Minister Muraoka visited ASEAN and successfully persuaded counterparts that US membership was essential (Terada, 1999, p. 45). However, during Muraoka's visit, MOFA quietly instructed its diplomats in Asian capitals to lobby against the MITI idea, because it questioned MITI's emphasis of the importance of US membership in a regional grouping (Funabashi, 1995, p. 61). Interestingly, similar disagreement also existed in the US. When Muraoka visited Washington, the US Trade Representative (USTR) and Department of Commerce were unenthusiastic about the proposal, but the State Department agreed with the plan (Terada, 1999, p. 26). APEC was eventually organized in November 1989 as a ministerial meeting with participants from Japan, the US, Canada, Australia, New Zealand and the then-ASEAN 6.

**East Asian Economic Caucus (EAEC).** Mahathir bin Mohamad firstly publicized his idea about an East Asian Economic "Bloc," when Chinese Premier Li Peng visited Malaysia in December 1990 (Hook, 1996, p. 194). Since the use of "bloc" was provocative, Noordin Sopiee proposed to re-name it the East Asian Economic "Group" (*New Straits Times*, 19 January 1991, cited in Satō, 2003, p. 85). The prospective members were: Japan, the ASEAN states, China, Taiwan, Hong Kong and Vietnam (ibid.). The grouping was re-re-named the East Asian Economic "Caucus" at the ASEAN Economic Ministers' Meeting in October 1991. However, at the fourth ASEAN Summit in Singapore in January 1992, no progress was made regarding the EAEC (Chalermphanupap, 2002) because Indonesia did not support the EAEC idea.

Reactions of both Japan and the US to EAEC were complex, because trade regionalism entails both economic and diplomatic aspects. In the case of the US, the Secretary of State, James Baker III, opposed EAEC immediately after he became aware of it (Funabashi, 1995, p. 206). In his memoir, Baker (1995, p. 610) confessed that he did his best to nullify the proposal. While the policy concerning EAEC was drawn up at the State Department, Baker's position was not universally understood in the administration. Carla Hills, the then-USTR Representative expressed her understanding of EAEC, when she visited Southeast Asia in October 1991. The State Department officials made every effort to restrain Hills, who, according to these officials, lacked a strategic mind (Funabashi, 1995, p. 68). Similarly, the gap between diplomacy and economics existed in Japan. Michael Armacost, then the US Ambassador to Japan, observed that Japan economically preferred strong economic ties with the US, not a regional bloc, but the offer of leadership in an Asian regional arrangement exerted an undeniable attraction for many Japanese (Armacost, 1996, p. 154). MOFA officials were often inclined to support EAEC (Funabashi 1995, p. 208). MOFA's Southeast Asian Division considered EAEC useful because its rival, APEC, could undermine Japan's special economic and political relationships with ASEAN (Hook et al., 2001, p. 190). In contrast, Nakao Eiichi, the MITI Minister, argued on May 3, 1991, that the core of regional cooperation should be APEC, and expressed strong concerns about EAEC on the grounds that it excluded the US.<sup>67</sup> The Miyazawa Administration, who came into power on November 5, 1991, decided at a cabinet meeting that Japan would support EAEC only when it attains membership within APEC.<sup>68</sup>

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<sup>67</sup> *Nikkei Shimbun*, May 5, 1991.

<sup>68</sup> *Nikkei Shimbun*, November 25, 1991.

**East Asia Free Trade Area (EAFTA).** In November 2004, China proposed conducting a study on EAFTA among ASEAN+3, and the study was started in April 2005. Meanwhile, Japan proposed a study on the Comprehensive Economic Partnership in East Asia (CEPEA) among ASEAN+6 in August 2006. The CEPEA study was finalized by July 2009, just one month after the completion the EAFTA study. Both the results of the CEPEA study were reported to the ASEAN+6 FMM and those of the EAFTA study to the ASEAN+3 FMM in August 2009. The two proposals are very different from each other. First, EAFTA is a project among ASEAN+3 members, while CEPEA comprises the members of ASEAN+6. China thought a more narrow membership excluding Australia (a US ally) and India would make it more convenient for China to assume leadership. Japan considered the inclusion of Australia and India necessary to dilute China's influence, a requisite condition for its leadership of the group. Second, China's proposal emphasizes liberalization of trade in goods, while the Japanese proposal emphasizes non-goods issues, such as investment and intellectual property. In August 2011, China and Japan made a joint proposal on East Asian economic cooperation. They suggested the establishment of Working Groups, where both EAFTA and CEPEA could be discussed, eventually leading to the launch of the Regional Comprehensive Economic Partnership (RCEP) negotiation in November 2012. These negotiations have not been concluded yet, and it is unclear whether Japan has genuine interest in it.<sup>69</sup>

### **Conclusion: Beyond Asia-Pacific**

Because the proposed theory is generally supported by the empirical examination of regional group formation in Asia-Pacific mainly led by Japan, it is interesting to consider whether it can also explain regionalism elsewhere. It is worth examining the regionalism policy of China, which can be a leader in an Asia-only group, replacing Japan. Brazil's regionalism policy is also interesting, because the rivalry between South America, led by Brazil, and a geographically wider cooperation led by the US. The proposed theory would also provide an alternative explanation to European regionalism, different from conventional views.

**China-led Asia.** While China did not support Asian groupings led by Japan (such as AMF), the country became very proactive in forming Asian groups, once overtaking Japan. In the diplomatic field, China has been a proponent of Asia-only summits and did not support the inclusion of the US in EAS, valuing the ASEAN+3 Summit over EAS, once the US was included as an observer. In the field of finance, China established AIIB, excluding the US. In the trade field, China has pursued two groupings which exclude the US: EAFTA and RCEP, the latter being regarded as a rival proposal to the US-led TPP.

Interestingly, Japan insisted on US participation in EAS, and decided against participating in AIIB together with the US. The country had/has a cautious attitude to EAFTA/RCEP, while it did decide to join the US-led TPP. These deviant cases imply the validity of the proposed theory. The relative decline of Japan vis-à-vis China seems to explain the change in Japan's behavioral pattern. It is now China, not Japan, which holds the leading position in the formation of an Asia-only group.

**Brazil-led South America.** The US initiated the North American Free Trade Agreement (NAFTA) in 1994 and then proposed to extend the FTA to Latin America through the Free

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<sup>69</sup> It is very clear that Japan prioritized TPP negotiation over RCEP. It is argued that Japan agreed to launch RCEP negotiations to show its "China card" to the US, when Japan's negotiation for TPP membership was in a critical stage. See Hamanaka (2014).

Trade Area of Americas (FTAA). Alternatively, Brazil initiated Mercosur, consisting of only South American countries. In the field of diplomacy, the Union of South American Nations (UNASUR), established in 2008 and comprising only South American countries, is an example of a Brazil-led organization excluding the US. The regionalism policy of Brazil is promotion of South American regionalism in which Brazil can hold the leading position, not that of Pan-American regionalism which may be dominated by the US. South American and Pan-American (Western hemisphere) regionalisms are competing, like Asian and Asia-Pacific regionalisms.

**France-led Europe.** There are various ways to explain European regionalism: realism (balance against the Soviet Union), institutionalism (policy coordination), and constructivism (European identity). The RGF theory explains European regionalism as a method employed mainly by France to exclude the US, and to a lesser extent, the UK. While the UK hesitated to join European regionalism, it is also true that France attempted to exclude the US and the UK. The inclusion of the UK and the US in regionalism would have led to an American- or British-dominated regionalism project, as Beloff (1963, p. 15) argues in his book entitled *The General Says No: Britain's Exclusion from Europe*. European regionalism and North Atlantic regionalism competed, and France chose the former (Asmus, 2005, p. 95). The relationship between the two regionalisms is similar to that between Asia and Asia-Pacific. Inclusion of the US has been the common problem for both Europeans and Asians.

Finally, it is interesting to consider how RGF theory can be developed in the future for wider application. As has been discussed, while it approaches institution-building from the supply-side, the demand and supply should match when they reach institutional equilibrium. Factors emphasized by realists and institutionalists such as threat and economic benefits could explain a *general status* of demand for institutions in the region. For example, Japan's desire to supply and lead a regional group in finance matched the demand for a financial cooperation mechanism among Southeast Asians soon after the financial crisis, resulting in ASEAN+3 FMM and CMI.

At the same time, the *specific status* of each country's demand also deserves close attention to further develop the theory. This means that the perspectives of follower countries should be included in the analytical setting. The follower countries include both countries that cannot be a leader because of geographical conditions (sounded by large countries, as is Mongolia between China and Russia) and countries that opt against becoming an actual leader (for example, Japan after the rise of China). The follower countries are in a position to choose a "boss."<sup>70</sup> This in turn means that potential leaders should be chosen to be an actual leader by their prospective followers. Because potential leaders need to be chosen, they need to behave benevolently. Moreover, followers may decide against choosing one leader, and counter-propose a regional group that includes two leaders, wherein their influences cancel each other out.

While acknowledging the importance of demand-side in explaining institutional equilibria, the RGF theory introduced in this paper provides us with new insight into regional institution-building from the perspective of potential suppliers or leaders, a perspective which has been largely neglected in existing literature. We should also not overlook a potential leader's purpose in establishing regional groups or institutions as part of realizing an ambition to become an actual leader by effectively excluding rivals.

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<sup>70</sup> For example, after the decline, Japan is now in a position to choose either a group led by the US or that led by China.



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